Program Biennium Comparison

The following table compares the 2021 biennium appropriated budget and the 2023 biennium budget request by type of expenditure and source of funding.

Program Biennium Comparison

Budget Item	Appropriated Budget 20-21	Requested Budget 22-23	Biennium Change	Biennium % Change
Personal Services	3,896,122	3,862,741	(33,381)	(0.86)%
Operating Expenses	30,859,701	30,145,392	(714,309)	(2.31)%
Benefits & Claims	412,514,460	513,622,929	101,108,469	24.51 %
Debt Service	5,058	5,518	460	9.09 %
Total Expenditures	**$447,275,341**	**$547,636,580**	**$100,361,239**	**22.44 %**
Proprietary Funds	447,275,341	547,636,580	100,361,239	22.44 %
Total Funds	**$447,275,341**	**$547,636,580**	**$100,361,239**	**22.44 %**
Total Ongoing	**$447,275,341**	**$547,636,580**	**$100,361,239**	**22.44 %**
Total OTO	**$0**	**$0**	**$0**	**0.00 %**

Program Description

The Health Care and Benefits Division (HCBD) provides state employees, retirees, members of the legislature, judges and judicial branch employees, and their dependents with group benefits in an efficient manner and at an affordable cost by administering a solvent, prudent benefits program. The division administers benefits plans including health, dental, prescription drug, life, long-term care, vision coverage, long-term disability, flexible spending accounts, a sick leave fund, employee assistance services, health promotion, and a voluntary employee benefit health care expense trust. Finally, the division is responsible for the centralized oversight and management of workers' compensation related matters impacting the state as an employer.

Employee benefits are governed by 2-18-701 et seq., 2-18-801 et seq., 2-18-1301 et seq., and 33-2-712, MCA. The Montana Safety Culture Act, as it applies to state government, is found in 39-71-1501 et seq.

The division is entirely funded from proprietary funds, which are not appropriated in HB 2. The various accounts provide for two programs and a third function within the division:

- Health Care Benefits Bureau provides oversight and administrative functions for the state employee group benefit plan, including administration of health, dental, vision, life insurance, and flexible spending accounts. It is funded from the group benefits claims fund, which funds the administrative costs of the bureau and benefit and claim costs
- Workers' Compensation Management Bureau is the central resource for state agencies in working to:
    - Enhance worker safety
    - Provide for loss-prevention
    - Develop and provide return-to-work programs
    - Coordinate workers' compensation coverage and policy management issues
- Flexible spending funds accounts for employee deductions for flexible spending, including medical and childcare

Program Highlights

Health Care and Benefits Division
Major Budget Highlights

- The Health Care and Benefits Division's 2023 biennium proposed appropriations are approximately $100.4 million or 22.4% higher than the 2021 biennium. Reasons for the difference between the 2021 biennium and 2023 biennium appropriations include:
  - The division reduced FY 2020 authority to more closely reflect the reduced medical claims because of the COVID-19 pandemic
  - The division is proposing increased claims costs of $58.4 million over the 2023 biennium
- The Health Care and Benefits Division is funded entirely with proprietary funds

Program Actuals and Budget Comparison

The following table compares FY 2020 actual expenditures to the 2021 biennium appropriated budget and the 2023 biennium budget request by type of expenditure and source of funding.

Program Actuals and Budget Comparison

Budget Item	Actuals Fiscal 2020	Approp. Fiscal 2020	Approp. Fiscal 2021	Request Fiscal 2022	Request Fiscal 2023
FTE	0.00	21.87	21.87	21.87	21.87
Personal Services	1,786,528	1,943,989	1,952,133	1,927,730	1,935,011
Operating Expenses	14,091,821	15,436,283	15,423,418	15,043,985	15,101,407
Benefits & Claims	178,367,045	184,807,230	227,707,230	250,590,441	263,032,488
Debt Service	2,300	2,299	2,759	2,759	2,759
Total Expenditures	**$194,247,694**	**$202,189,801**	**$245,085,540**	**$267,564,915**	**$280,071,665**
Proprietary Funds	194,247,694	202,189,801	245,085,540	267,564,915	280,071,665
Total Funds	**$194,247,694**	**$202,189,801**	**$245,085,540**	**$267,564,915**	**$280,071,665**
Total Ongoing	**$194,247,694**	**$202,189,801**	**$245,085,540**	**$267,564,915**	**$280,071,665**
Total OTO	**$0**	**$0**	**$0**	**$0**	**$0**

Program Discussion -

FY 2020 Appropriation Compared to FY 2020 Actual Expenditures

The Health Care and Benefits Division is funded entirely with proprietary funds and is not included in HB 2. The FY 2020 budget of $202.2 million was 96.1% expended as of the end of the fiscal year.

FY 2020 Appropriations Compared to FY 2021 Appropriations

Overall, the FY 2021 appropriation is approximately $42.9 million or 21.2% higher than the FY 2020 appropriation. The difference is primarily in benefits and claims. HCBD reduced appropriation authority in FY 2020 to more closely match anticipated benefits and claims.

Executive Request

The Health Care and Benefits Division is proposing an increase of approximately $22.5 million in FY 2022 and $35.0 million in FY 2023 above the FY 2021 base appropriations. These proposed changes are primarily to align the budget with the division's administration and claims expense projections. Additional information on these proposed adjustments are included in the Present Law Adjustments section below.

LFD COMMENT The Health Care and Benefits Division will update its decision package for projected claims expenses in the December 15th submission of the Governor's budget. Decision package 2101 will request a reduction in proprietary funding of $25.5 million in FY 2022 and $12.9 million in FY 2023.

Funding

The following table shows proposed program funding by source of authority.

Department of Administration, 21-Health Care & Benefits Division
Funding by Source of Authority

Funds	HB2 Ongoing	HB2 OTO	Non-Budgeted Proprietary	Statutory Appropriation	Total All Sources	% Total All Funds
General Fund	0	0	0	0	0	0.00 %
State Special Total	**$0**	**$0**	**$0**	**$0**	**$0**	**0.00 %**
Federal Special Total	**$0**	**$0**	**$0**	**$0**	**$0**	**0.00 %**
06027 Flexible Spending Funds	0	0	15,758,186	0	15,758,186	2.88 %
06559 Group Benefits Claims A/C	0	0	531,168,926	0	531,168,926	96.99 %
06575 Workers Comp Mgmt Program	0	0	709,468	0	709,468	0.13 %
Proprietary Total	**$0**	**$0**	**$547,636,580**	**$0**	**$547,636,580**	**100.00 %**
Total All Funds	**$0**	**$0**	**$547,636,580**	**$0**	**$547,636,580**	

The Health Care and Benefits Division is funded entirely with proprietary funds which are not appropriated in HB 2. The three funds provide funding for two programs and a third function within the HCBD:

- Employee Benefits Program – provides oversight and administrative functions for the state employee group health plan including administration of the health, dental, vision, and life insurance. It is funded from the group benefits claims proprietary fund, which is an account used for the administrative costs of the program as well as benefits and claims costs
- Workers' Compensation Management Bureau – is the central resource for state agencies in working to enhance worker safety, provide loss preventions, develop and provide return-to-work programs, and coordinate workers' compensation coverage and policy management issues. It is funded from workers' compensation management program fees which are fixed costs allocated to each state agency
- Flexible Spending Funds – accounts for employee deductions for flexible spending including medical and childcare

These funds are discussed in the Proprietary Rates section of the narrative.

Program Budget Summary by Category

The following table summarizes the total budget by base, present law adjustments, and new proposals. For a description of these categories, please see the glossary.

Budget Summary by Category

Budget Item	General Fund Budget Fiscal 2022	General Fund Budget Fiscal 2023	General Fund Biennium Fiscal 22-23	General Fund Percent of Budget	Total Funds Budget Fiscal 2022	Total Funds Budget Fiscal 2023	Total Funds Biennium Fiscal 22-23	Total Funds Percent of Budget
2021 Base Budget	0	0	0	0.00 %	245,085,540	245,085,540	490,171,080	89.51 %
SWPL Adjustments	0	0	0	0.00 %	(459,644)	(457,733)	(917,377)	(0.17)%
PL Adjustments	0	0	0	0.00 %	22,939,019	35,443,858	58,382,877	10.66 %
New Proposals	0	0	0	0.00 %	0	0	0	0.00 %
Total Budget	**$0**	**$0**	**$0**		**$267,564,915**	**$280,071,665**	**$547,636,580**	

Present Law Adjustments

The "Present Law" Adjustments table shows the changes from the base appropriation to the proposed budget. "Statewide Present Law" adjustments (DP 1, DP 2, DP 3) are standard categories of adjustments made to all agencies. Decisions on these items were applied globally to all agencies.

Present Law Adjustments

	Fiscal 2022 FTE	Fiscal 2022 General Fund	Fiscal 2022 State Special	Fiscal 2022 Federal Special	Fiscal 2022 Total Funds	Fiscal 2023 FTE	Fiscal 2023 General Fund	Fiscal 2023 State Special	Fiscal 2023 Federal Special	Fiscal 2023 Total Funds
DP 1 - Personal Services	0.00	0	0	0	(24,403)	0.00	0	0	0	(17,122)
DP 2 - Fixed Costs	0.00	0	0	0	(434,870)	0.00	0	0	0	(440,378)
DP 3 - Inflation Deflation	0.00	0	0	0	(371)	0.00	0	0	0	(233)
DP 4 - Allocate Department Indirect/Administrative Costs	0.00	0	0	0	(5,107)	0.00	0	0	0	(5,107)
DP 5 - ServiceNow	0.00	0	0	0	(4,062)	0.00	0	0	0	(4,062)
DP 2101 - Health Plan Claims	0.00	0	0	0	22,941,288	0.00	0	0	0	35,445,507
DP 2102 - Workers Comp Management Bureau Operating Increse	0.00	0	0	0	6,900	0.00	0	0	0	7,520
Grand Total All Present Law Adjustments	**0.00**	**$0**	**$0**	**$0**	**$22,479,375**	**0.00**	**$0**	**$0**	**$0**	**$34,986,125**

*"Total Funds" amount includes funding from sources other than General Fund, State Special, or Federal Special (i.e. Proprietary).

DP 1 - Personal Services -

The executive requests adjustments to annualize personal services costs including FY 2021 statewide pay plan adjustments, benefit rate adjustments, vacancy savings adjustments and longevity adjustments related to incumbents in each position at the time of the personal services snapshot.

DP 2 - Fixed Costs -

The executive requests adjustments to provide the funding required in the proposed budget to pay increases in fixed costs assessed by other agencies within state government for the services they provide. Examples include: warrant writer, motor pool, etc. The rates charged for these services are approved in the section of the budget that provides the services.

DP 3 - Inflation Deflation -

The executive requests adjustments to reflect budgetary changes generated from the application of inflation and deflation factors to specific expenditure accounts. Affected accounts include food, postage, gasoline, and others.

DP 4 - Allocate Department Indirect/Administrative Costs -

The executive requests a decrease in proprietary funds to provide the funding to pay the Department of Administration's indirect costs. These costs are charged to the department's programs for services provided, which include accounting, human resources, and legal support.

DP 5 - ServiceNow -

The executive requests a decrease in proprietary funds because of the purchase of ServiceNow licenses and programs for the 2023 biennium. The Director's Office is anticipating operating efficiencies and other savings by using ServiceNow.

DP 2101 - Health Plan Claims -

The executive requests an increase in proprietary funds to align the budget with projected claims expenses. The State of Montana employee benefits plan projects an average annual trend of 6.0% in medical claims and 9.0% in prescription drug costs. Additional budget authority requests totals $22.9 million in FY 2022 and $35.3 million in FY 2023 for healthcare coverage.

Claims administration and operating costs are also predicted to increase with contract renewals. The changes are due to increased third party administrator fees. The executive requests an additional $58,000 in FY 2022 and $120,000 in FY 2023 to administer the state's benefit programs.

LFD COMMENT The Health Care and Benefits Division will update this decision package in the December 15th submission of the Governor's budget. The updated decision package will request a reduction in proprietary funding of $25.5 million in FY 2022 and $12.9 million in FY 2023.

DP 2102 - Workers Comp Management Bureau Operating Increse -

The Workers' Compensation Management Bureau requests an increase in propriety funds for operating expenses. The requested increases are for an Occupational Safety and Health Administration (OSHA) training, rent and computer replacement scheduled for the 2023 biennium.

Other Issues -

Proprietary Rates

The Heath Care and Benefits Division manages two proprietary programs:

- Employee benefits, which includes
  - State's health and other benefit insurance plans
  - Contract administration of the flexible spending account
- Management of the state agency workers' compensation insurance

Employee Benefits Program – Group Benefits and Claims – 06559

Proprietary Program Description

The employee benefits program is charged with providing state employees, retirees, members of the legislature, judges, Judicial Branch employees, and their families with adequate medical, dental, prescription drug, life, and other related group benefits in an efficient manner and at an affordable cost. The program operates a self-funded health, prescription drug, dental, and vision plan. Life and long-term disability are purchased from private sector vendors on a fully-insured basis. The program contracts with private companies to provide claims processing services, health screenings, and wellness plan administration.

The core service provided by the program is a medical plan, which includes prescription drug, vision exam coverage, dental, and basic life insurance benefits. The medical plan is administered by Allegiance, the pharmacy plan is administered by Navitus, and the dental plan is administered by Delta Dental, through their provider networks. The life and long-term disability are fully insured products offered through Standard Insurance.

The division has developed on-site employee health centers in Helena, Billings, Missoula, Butte, and Anaconda. The division has contracted with CareHere to staff and operate the health centers.

The program is funded by the state contribution for group benefits and by contributions and fees paid by plan members. The program currently supports 18.73 FTE.

Proprietary Program Narrative

The following 2023 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the group benefits and claims proprietary fund.

2023 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06559	Group Benefits Claims A/C	61010	Health Care Benefits Division

	Actual FY 20	Budgeted FY 21	Proposed FY 22	Proposed FY 23
Operating Revenues				
Fees and Charges				
Fee Revenue A				
Other Operating Revenues				
Investment Earnings	2,788,195	515,000	670,000	650,000
Group Benefit Plan Contributions	217,031,613	237,000,000	214,000,000	214,000,000
Other Operating Revenues	5,500,740	3,850,000	5,500,000	5,300,000
Total Operating Revenues	225,320,548	241,365,000	220,170,000	219,950,000
Expenses				
Personal Services	1,532,072	1,771,664	1,735,013	1,743,576
Other Operating Expense				
Operating	14,063,745	15,231,458	14,841,267	14,898,455
Claims	171,958,990	220,222,480	243,105,691	255,547,738
Total Operating Expense	187,554,807	237,225,602	259,681,971	272,189,769
Operating Income (Loss)	37,765,741	4,139,398	(39,511,971)	(52,239,769)
Nonoperating Revenues	44,486			
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	44,486	-	-	-
Income (Loss) Before Contributions and Transfers	37,810,227	4,139,398	(39,511,971)	(52,239,769)
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments	(127)	(2,759)	(2,759)	(2,759)
Change in Net Position	37,810,100	4,136,639	(39,514,730)	(52,242,528)
Beginning Net Position - July 1	101,206,065	138,519,759	142,656,398	103,141,668
Prior Period Adjustments	(496,406)			
Change in Net Position	37,810,100	4,136,639	(39,514,730)	(52,242,528)
Ending Net Position - June 30	138,519,759	142,656,398	103,141,668	50,899,140

Expenses

The COVID-19 pandemic impacted expenses in FY 2020 and is causing uncertainty with determining claims in the relatively near future. When the Governor ordered the stay at home order in March 2020, HCBD noticed an immediate impact on the reduction of services and claims costs. There was an increase in medical claims for a few months in late summer and early fall 2020; however, many hospital facilities are nearing capacity in late fall 2020, which may result in a decrease in medical claims again. HCBD does expect those members that delayed procedures and services during this time will still receive them, and there may be a delayed increase in claims as a result.

The HCBD is also tracking COVID-19 related expenses to the plan and there have been additional costs. However, these additional costs have not outpaced the savings related to delayed procedures.

HCBD is seeing an increase in pharmacy trends which occurred slowly over 2019. The analysis showed that there were additional specialty medication utilizers. Since specialty medication are more expensive, this has had a large impact. Additionally, when the COVID-19 pandemic began and the shutdown started, the rules were relaxed regarding filling prescriptions early and many members moved to 90-day prescription fills. This resulted in larger expenditures in March 2020 but has since leveled off.

The Health Care and Benefits Division receives an actuarial analysis from Actuaries Northwest, LLC that analyzes both medical and prescription drug claims. The tables below show two trend scenarios that were included in the June 2020 actuarial report. One scenario calculates projections based on an increase in medical costs of 6.0% and prescription costs of 9.0%. A second scenario calculates projections based on an increase in medical costs of 9.0% and prescription costs of 11.0%.

Figure 31

Health Care and Benefits Division
Group Benefits Claims
6.0% Medical Trend and 9.0% Prescription Trend
Trend Assumptions by Actuaries Northwest, LLC

	Projected Plan Year 2020	Projected Plan Year 2021	Projected Plan Year 2022	Projected Plan Year 2023	$ Change 21B - 23B	% Change 21B - 23B
Medical Claims	$ 136,132,654	$ 147,023,266	$ 155,844,662	$ 165,195,342	$ 37,884,084	13.4%
Rx Claims	36,757,459	40,433,205	44,072,193	48,038,691	14,920,220	19.3%
Part D	(12,819,488)	(14,101,436)	(15,370,566)	(16,753,917)	(5,203,559)	19.3%
Dental Claims	6,106,667	7,222,668	7,511,574	7,812,037	1,994,276	15.0%
Change in IBNR	33,534	-	-	-	(33,534)	-100.0%
Total Claims Expense	$ 166,210,826	$ 180,577,703	$ 192,057,863	$ 204,292,153	$ 49,561,487	14.3%

Health Care and Benefits Division
Group Benefits Claims
9.0% Medical Trend and 11.0% Prescription Trend
Trend Assumptions by Actuaries Northwest, LLC

	Projected Plan Year 2020	Projected Plan Year 2021	Projected Plan Year 2022	Projected Plan Year 2023	$ Change 21B - 23B	% Change 21B - 23B
Medical Claims	$ 137,074,626	$ 152,152,835	$ 165,846,590	$ 180,772,784	$ 57,391,913	19.8%
Rx Claims	36,949,211	41,752,609	46,762,922	52,374,472	20,435,574	26.0%
Part D	(12,819,488)	(14,101,436)	(15,370,566)	(16,753,917)	(5,203,559)	19.3%
Dental Claims	6,138,791	7,259,610	7,695,186	8,156,897	2,453,682	18.3%
Change in IBNR	33,534	-	-	-	(33,534)	-100.0%
Total Claims Expense	$ 167,376,674	$ 187,063,618	$ 204,934,132	$ 224,550,236	$ 75,044,076	21.2%

Revenues

The state employee group benefit plan (SEGBP) is self-funded, and as such is responsible for medical costs incurred by its members. SEGBP is funded through a combination of state share paid by the State of Montana as an employer and member (employee and retiree) contribution payments. The state share is $1,054 per month and is established in 2-18-703(2), MCA. As a component of employee compensation, the state share contribution amount is a subject of collective bargaining and is negotiated as part of the overall pay package for state employees.

Plan revenues are estimated at approximately $220.0 million each fiscal year.

Proprietary Rates

For the 2023 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes.

Figure 32

Requested Rates for Internal Service or Enterprise Funds
Fee/Rate Information

	Actual FY 20	Budgeted FY 21	Proposed FY 22	Proposed FY23
Fee Description:				
State Share Contribution	$1,054	$1,054	$1,054	$1,054

Rates are established to maintain adequate reserves. Actual state share rates are set for each calendar year as opposed to a fiscal year. This table shows the average month state share rate for each fiscal year

The amounts shown as rates above are the state share contribution for each state employee each month. The state share contribution amounts are contained in statute. For the 2023 biennium the executive is not proposing any additional funding for the state share contribution in the pay plan. The various contribution costs for the program are not limited through the legislative process but are determined by the division based on actuarial estimates of the claim costs for each insurance type. Any difference between the state share contribution and actual costs are made up by employee and retiree contributions and investment income. As the plan year for the state employee health insurance is a calendar year, the revenues for the plans are a combination of contributions for two years.

Workers' Compensation Management Program – 06575

Proprietary Program Description

The Health Care and Benefits Division manages the workers' compensation management program. The program assists employees and agencies in ensuring a safe working environment, reduces on-the-job injuries and accidents in the workplace, and assists employees who are injured in returning to meaningful and productive work. The program is the central resource in working with the state's workers' compensation insurer, Montana State Fund, to coordinate workers' compensation coverage and policy management issues.

The program is funded through a fixed cost rate charged to state agencies. The program currently supports 3.14 FTE.

Proprietary Program Narrative

The following 2023 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the workers' compensation management proprietary fund.

2023 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06575	Workers' Comp Management	61010	Workers' Comp

	Actual FY 20	Proposed FY 21	Proposed FY 22	Proposed FY 23
Operating Revenues				
Fees and Charges				
Fee Revenue A	344,997	345,000	349,313	349,312
Total Operating Revenues	344,997	345,000	349,313	349,312
Expenses				
Personal Services	310,599	304,005	308,263	308,823
Other Operating Expense	38,879	41,015	46,149	46,233
Total Operating Expense	349,478	345,020	354,412	355,056
Operating Income (Loss)	(4,481)	(20)	(5,099)	(5,744)
Nonoperating Revenues				
Other Revenue A				
Other Revenue B				
Nonoperating Expenses				
Other Expense A				
Other Expense B				
Total Nonoperating Revenues (Expenses)	-	-	-	-
Income (Loss) Before Contributions and Transfers	(4,481)	(20)	(5,099)	(5,744)
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	(4,481)	(20)	(5,099)	(5,744)
Beginning Net Position - July 1	38,228	33,747	33,727	28,628
Prior Period Adjustments				
Change in Net Position	(4,481)	(20)	(5,099)	(5,744)
Ending Net Position - June 30	33,747	33,727	28,628	22,884

Expenses

The executive proposes an increase in expenses of approximately $24,000 in FY 2022 and $25,000 in FY 2023 when compared to the FY 2021 base year. The following figure shows the changes as proposed by the executive as reflected in the budgeting system.

Figure 33

Department of Administration
Health Care and Benefits Division
Workers' Compensation Management
Proposed Changes for the 2023 Biennium in the Budgeting System

	FY 2022	FY 2023
Personal Services		
Statewide Present Law Adjustment	12,953	13,513
Personal Services Total	12,953	13,513
Operating Expenses		
Statewide Present Law Adjustment - Fixed Costs	3,703	3,167
Allocate Indirect/Administrative Costs	868	868
Operating Increase	6,900	7,520
Operating Expenses Total	11,471	11,555
Total Proposed Increase	24,424	25,068

The largest proposed increases are from statewide present law adjustments for personal services and a present law change for operating expenses. The statewide present law increases personal services by approximately $13,000 in FY 2022 and $14,000 in FY 2023 and is primarily due to the legislatively approved pay plan, benefits changes, and the movement of 0.07 FTE into the program.

The present law adjustment proposed for operating expense increases totals approximate $7,000 in FY 2022 and $7,500 in FY 2023. These increases are for an Occupational Safety and Health Administration (OSHA) training, an increase in rent, and scheduled computer replacement.

Revenues

The workers' compensation management program fees are composed of a fixed cost rate allocated to each state agency based on the average number of payroll warrants issued each pay period.

Proprietary Rates

For the 2023 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes. The executive is proposing a 2.1% increase in the rates in the 2023 biennium when compared to FY 2021.

Figure 34

Requested Rates for Internal Service or Enterprise Funds
Fee/Rate Information

	Actual FY 20	Budgeted FY 21	Proposed FY 22	Proposed FY 23
Fee Description:				
Workers' Compensation Management	$0.95	$0.95	$0.97	$0.97

The rates approved by the legislature are the maximum the program may charge during the biennium. They are not the rates the program must charge.

Flexible Spending Account Program – 06027

Proprietary Program Description

State employees can elect to set aside a certain amount of their pay into accounts to pay dependent care and out-of-pocket medical costs. The “set aside” funds are withdrawn from employee pay prior to assessment of taxes, effectively lowering employee taxable pay. Employees must submit claims to use the funds deposited in the accounts for allowable expenses.

Federal rules govern the use of and the amount that can be contributed to flexible spending accounts. The current contribution maximums are $2,750 per year for medical and $5,000 per year for dependent care. In the fall of 2013, the Internal Revenue Service announced the ability for participants to roll over up to $500 from the medical flexible spending account into the next benefit year. Employees forfeit any unspent funds beyond the $500 rollover for medical and any remaining dependent care balance at the end of the year.

Approximately 4,500 state employees participate in the flexible spending account program.

Proprietary Program Narrative

The following 2023 Biennium Report on Internal Service and Enterprise Funds shows the actual and projected expenditures and related revenues associated with the flexible spending proprietary fund.

2023 Biennium Report on Internal Service and Enterprise Funds

Fund	Fund Name	Agency #	Program Name
06027	Flexible Spending	61010	Health Care & Benefits Division

	Actual FY 20	Budgeted FY 21	Proposed FY 22	Proposed FY 23
Operating Revenues				
Fees and Charges				
Administration Fee	122,318	171,863	171,863	171,863
Investment Earnings	20,809	1,000	1,000	1,000
FSA Account Contributions	7,335,592	7,741,250	7,741,250	7,741,250
Total Operating Revenues	7,478,719	7,914,113	7,914,113	7,914,113
Expenses				
Personal Services				
Other Operating Expense				
Administration	122,366	171,863	171,863	171,863
FSA Distributions	6,709,229	7,707,230	7,707,230	7,707,230
Total Operating Expense	6,831,595	7,879,093	7,879,093	7,879,093
Operating Income (Loss)	647,124	35,020	35,020	35,020
Nonoperating Revenues				
Nonoperating Expenses				
Total Nonoperating Revenues (Expenses)	-	-		
Income (Loss) Before Contributions and Transfers	647,124	35,020	35,020	35,020
Capital Contributions				
Transfers In				
Transfers Out				
Loans and Lease Payments				
Change in Net Position	647,124	35,020	35,020	35,020
Beginning Net Position - July 1	2,484,443	3,131,567	3,166,587	3,201,607
Prior Period Adjustments				
Change in Net Position	647,124	35,020	35,020	35,020
Ending Net Position - June 30	3,131,567	3,166,587	3,201,607	3,236,627

Expenses

The executive proposes that expenditures in FY 2022 and FY 2023 are unchanged from FY 2021.

Revenues

The flexible spending account program is funded from an administrative fee of $2.26 per month on each account participating in the program. This fee is charged per participant whether the participant has a medical account, a dependent care account, or both.

Proprietary Rates

For the 2023 biennium the following rates are proposed by the executive. The rates charged in the base year are shown for comparison purposes. The executive is not proposing any changes to the rates.

Figure 35

Requested Rates for Internal Service or Enterprise Funds
Fee/Rate Information

	Actual FY 20	Budgeted FY 21	Proposed FY 22	Proposed FY 23
Fee Description:				
FSA Account	$2.26	$2.26	$2.26	$2.26

The flexible spending account program is funded with an enterprise fund, which is a type of a proprietary fund. As such, the legislature does not appropriate the funds or approve the rates for the program. Instead, the legislature reviews the report for the enterprise fund and identifies concerns with the financial position of the fund.